

File No. 04-1000-20-2011-037

April 11, 2011

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Dear s.
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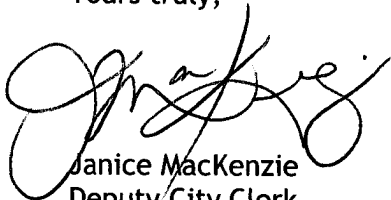
Re: (1) Request for Access to Records under the Freedom of Information and Protection of Privacy Act (The "Act")

We write in response to your request of February 17, 2011 for a copy of the internal audit of Mountain View Cemetery.

Please find the responsive record enclosed

If you have any questions, please feel free to contact us at your convenience.

Yours truly,



Janice MacKenzie
Deputy City Clerk

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Encls.

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**CITY OF VANCOUVER
INTERNAL AUDIT REPORT
*Mountain View Cemetery Audit***

Distribution:

Internal Audit Management Team
KPMG

David McLellan – GM, Community Services Group
Ken Bayne – GM, Business Planning and Services
Jennifer Standeven – Assistant Director, Operations, Social
Development
Glen Hodges – Manager, Mountain View Cemetery

EXECUTIVE SUMMARY

November 21, 2009

Our audit objective was to provide reasonable independent assurance that Mountain View Cemetery's performance met business objectives established by management, and that operational processes and internal controls are adequate and effective. We reviewed the master plan (2000), examined inherent risks, and assessed achievement targets as documented in the updated financial plan (2006) for the Cemetery. Our audit revealed that Mountain View Cemetery complies with the Cemetery, Interment and Funeral Services Act. However, we identified internal control deficiencies that require remedial action.

Highlights of our assessment and findings are discussed in the report.

The more significant findings and recommendations are:

G.1 Provide Formal Report to City Council

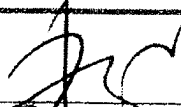

City Council approved and invested \$17 million to revitalize Mountain View Cemetery. Phase 1 of this development has now been completed. To date, the actual project cost is \$1.4M, excluding several outstanding claims totaling approximately \$400K. This is primarily due to the escalation of building costs during the development phase. In addition, another \$2.47M was spent on other costs such as schematic design (\$0.4M), Field of Honour project (\$0.1M), transfers to operating expense (\$0.7M) and interests on borrowed money at (\$1.3M).

The year 1 year-to-date operating revenue is also lower than projected. The Cemetery Committee should formally report the financial results and operating status to Council when the final Phase 1 project development information is available.

G.2 Formalize Bank Reconciliation Process

We found discrepancies between bank deposits and the accounting entries. Management should establish a formal process to reconcile bank deposits to the accounting records on a timely basis.

The above and other observations have been reviewed and discussed with management at Mountain View Cemetery.

 Tony Hui, CA Manager, Internal Audit Division	 King Wan, MBA, CMA, CIA Assistant Internal Audit Manager
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A. INTRODUCTION

Located west of Fraser Street between 31st and 43rd Avenues, the Mountain View Cemetery has been owned and operated by the City of Vancouver since 1887. The cemetery is made up of 106 acres of land with approximately 92,000 grave sites and 145,000 interred remains. It is Vancouver's only cemetery.

In 2000, City staff and consultants received Council approval of the Master Plan to reopen and revitalize this historic space. The financial portion associated with this Master Plan was last updated in 2006. For the past few years, extensive planning and design has been ongoing at the cemetery, and some of the first major pieces of the Master Plan are taking shape.

A new operations yard was completed in 2007, and the new cemetery office opened in April 2008. The Celebration Room opened in 2009 for business. The redesign also includes the creation of more than 2,200 new spaces for cremated remains.

B. SCOPE

Our audit objective was to provide reasonable independent assurance that Mountain View Cemetery's business objectives meet management expectations, and operational processes and internal controls are adequate and effective. We also reviewed the Master Plan (2000), examined inherent risks and assessed achievement targets as identified in the revised financial plan (2004) and updated (2006) version for the Cemetery. Our work included a review of the following activities/topics:

- Strategic direction and long-term vision;
- Current field and business operations with respect to -
 - Resource sufficiency
 - Policies and procedures
 - Record keeping
- Financial accountability and internal controls;
- Physical assets, inventory and security;
- Management objectives;
- Compliance to legislations; and
- Future development.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

C. ACKNOWLEDGEMENT

We would like to thank Ray Stensrud, former and retired Assistant Director, Operations - Social Development; Jennifer Standeven, Assistant Director, Operations - Social Development; Glen Hodges, Manager, Mountain View Cemetery; and his staff for their cooperation and assistance.

D. CONCLUSION

The result of this audit did not reveal significant internal controls problems and we found the requirements under the Cemetery, Interment and Funeral Services Act are being complied with. However, our audit identified a few minor internal control deficiencies requiring remedial action. In addition, the development costs for the project exceeded the financial plan and once all the outstanding claims are settled, the final project costs should be reported back to City Council.

E. BACKGROUND

Mountain View Cemetery is evolving and broadening its services to meet diverse needs of a large multicultural city. The major catalysts for Mountain View Cemetery's transformation and recent initiatives are economic sustainability, successes of other internationally known cemeteries and the urban parks movement in North America. Cumulative subsidies from Vancouver's taxpayers over the past decades were not sustainable in the long run.

In 2004 City Council approved a revitalization and reinvestment plan (finance portion revised in 2006) in the cemetery business. Public consultation was undertaken during the development of the Master Plan, and continued throughout the development of the project. The objective was to make the Cemetery self-sustaining and to repay the capital investments in 17 years, which was subsequently extended to 25 years.

City Council initially approved financing for phase 1 totaling \$12.2 million (2004) to be funded by a loan from the Capital Financing Fund with repayment from increasing cemetery revenues. The total of \$12,204,000 was to cover an estimated nine years of development with most of the work scheduled for the first two years. This work would include all three buildings (Administration, Works Yard and the Celebration Room), and a majority of the landscape and interment work totaling \$9,974,000. The remaining \$2,230,000 would be used over the remaining seven years to complete new interment space as required. An annual subsidy of \$820,000 for the first seven years of re-opening of the cemetery was also included in the 2004 proposal which was approved by Council. The Financial Plan was updated in 2006 after a review of the bid costs for the reconstruction. The revised financial plan showed the initial project costs went up to \$14,976,000 and the new interment space increased to \$3,400,000. The updated financial plan also indicated the annual subsidy level of \$820,000 (reduced in 2009 to \$738,238 and adjusted to \$759,164 in 2010) would need to be increased to 12 years from seven years in order for the goal of financial self-sufficiency to be maintained and achieved within 25 years. The revised total of \$18,376,400 was subsequently approved by City Council that year.

A Cemetery Committee comprising of the General Manager, Business Planning (formerly the Director of Financial Planning and Services Corporate Services Group); General Manager, Community Services Group; Director of Support Services, CSG; Assistant Director, Operations - Social Development, CSG; and Manager, Mountain View Cemetery, is responsible for financial oversight of cemetery operations.

This year (2009) is the turning point when the redevelopment and first phase of Mountain View Cemetery's infrastructure rehabilitation have been fully completed. Management is taking action to "grow" the business in concert with the business plan. Mountain View Cemetery engages the market by exploring market conditions, liaising with funeral homes and hospices, developing rental pricing based on market and promoting the use of the new 'Celebration Hall' for corporate rental as a meeting place. Management has also been taking stock of reusable plots and expanding the cremation market niche by building columbaria to expand growth and generate new revenue.

Financial Statistics

The initial implementation plan, actual completion of the reconstruction and 2009 Year-to-Date budget versus actual data are shown below:

Table 1 - Projected and Actual Completion Timeline of the Redevelopment

Implementation Plan	Projected Completion *	Actual Date of Completion
Infrastructure, Landscape and Memorials	July 2007	October 2008
Operations Yard	March 2007	July 2007
Customer Service Centre	June 2007	April 2008
Celebration Hall	September 2007	September 2008
Complete Phase 1	September 2007	October 2008

* These are the original completion estimates provided by the General Contractor at the award of the tender.

Table 2 - Projected and Actual Redevelopment Costs to Date

Implementation Costs	July 2004 Budget	July 2006 Revised Budget	Year-to-3Q 2009 Actual
Initial Project Costs	\$9,973,800	\$14,976,000	\$14,935,532
Landscaping/Interment (yr 5 & 8)	\$2,230,200	\$3,400,000	Expenditure scheduled for 2014 and beyond
Other Accumulated Costs:			
a. Costs prior to 2004 - schematic design and project stemming from Master plan approval in 2000 - \$398,733			
b. Transfer from CFF to operating - \$665,196			
c. Field of Honour project - \$107,093			
d. Interest expense (all borrowing) - \$1,306,576			
Total = \$2,477,598 ->			\$2,477,598
Total Project Cost	\$12,204,000	\$18,376,400	\$17,413,130

Table 3 - Year 1 (2009) Operating Results (Revenues) Year-to-Date

Line Item - Revenues & Expenses	(a) Year 1 (2009) Budget	(b) Prorated budget to Oct 30, 2009**	(c) Actual to Oct 30, 2009	(d) Variance to Budget - Difference of (b) and (c)	% of Target Reached
Cremated Remain Space	\$515,715	\$429,760	\$421,460	-\$8,300	81.7
Interments	\$260,570	\$217,140	\$160,944	-\$56,196	74.1
Memorials	\$53,875	\$44,895	\$24,100	-\$20,795	46.3
Cemetery Services	\$15,000	\$12,500	\$13,400	+\$900	107.2
Cemetery products	\$29,240	\$24,365	\$22,231	-\$2,134	91.2
Total Revenues	\$874,400	\$728,660	\$642,135	-\$86,525	88.2
Operations	\$861,624	\$718,020	\$852,706	+\$134,686	118.6
Maintenance***	-\$123,386	-\$102,820	-\$74,157	-\$28,663	72.1
Total Expenses	\$738,238	\$615,200	\$778,549	-\$163,349	126.6
Net	\$136,162	\$113,460	-\$136,414	-\$22,954	-20.2

** Prorated on 10/12 basis (rounded) without adjusting for seasonality considerations.

*** Represents net of perpetual care fund earnings and central stores overhead.

As 2009 is Mountain View Cemetery's first full year of operation since redevelopment, operating results can not be used to compare to prior years as the operating environments were very different. Comparative numbers from actual to the budget would provide some insight to assess whether the operation is meeting its targets. In table 3 the revenue projection is for the entire year but we only have the results up to end of October at the time of the audit. By extrapolating the year-to-date result to year end, it would still suggest that the revenue targets will not be achieved.

F. RISK ANALYSIS

Potential risks are that:

- Operating results may not be sufficient to meet Business and Financial plans;
- Inadequate market knowledge and assessment thus affecting planned financial outcome;
- Project implementation was not completed on time and over budget;
- Lack of management internal controls oversight;
- City's reputation is jeopardized due to insufficient or poor customer service and facilities; and
- Key internal controls not in place and or not functioning as planned.

G. AUDIT FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

G.1 Provide Formal Report to City Council

The current revitalization and reinvestment funding plan was reviewed and initially approved by City Council in 2004. The financial plan was then updated and re-approved by City Council in 2006 and the annual subsidy level was extended to 12 years to achieve financial self-sufficiency at the Cemetery within 25 years.

Completion of the key infrastructures such as the memorials, Customer Service Centre, Operations Yard and Celebration Room were behind the projected completion dates. Part of the reasons was the approval for the revised funding being delayed until 2006. The initial one year timeline to rebuild the various buildings also took 2.5 years to complete.

The actual implementation cost for the initial project was \$14.9M. In addition, there were also other costs:

For the design etc. stemming from the Master Plan	\$ 0.4M
Transfer from CFF to operating	\$ 0.6M
Field of Honour Project	\$ 0.1M
Interests on borrowing	\$ 1.3M
	\$ 2.4M
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Furthermore, there are 3 outstanding claims totaling approximately \$400K still to be settled.

Based on the actual revenues and expenses to October this year, the revenue targets for the year will likely be lower than expected. Thus, management would need to monitor and tweak the financial plan closely in the coming fiscal periods.

The Cemetery Committee reviews the Cemetery operation and financial viability regularly but there is no scheduled date when City Council will receive a formal update on the Cemetery's operation. Once these outstanding claims are settled, Phase 1 results of the project as well as the operating results should be reported back to Council.

Recommendation

The Manager, Mountain View Cemetery, working with the Cemetery Committee, should formally report back to City Council, providing details on the actual financial performance as compared to the business plan and projection, once all Phase 1 costs are settled and the results finalized. This reporting process will ensure that City Council receives financial results and operating status of the cemetery operations.

Management Comment

Manager, Mountain View cemetery

Agreed. Management and the Cemetery Committee agree with the recommendation. A report to Council will be provided in 2011. This will allow time for the outstanding claims to be resolved and for balanced reporting on two full years of new operation.

G.2° Formalize Bank Reconciliation Process

We noted a couple instances of very minor differences (less than \$50) between the bank deposits and accounting records per the financial work sheet. Upon further investigation the differences were explained with some efforts. On both of these occasions, the amount of discrepancies is small. However, it is necessary that the process be reconciled so that such differences are identified and accounted for with appropriate investigations. The manager reviews each transaction processed but the review process should be extended to include regular reviews of the subsequent bank deposits and reconciliations. The value of this is that if the difference is a large amount, it would save a great deal of work in future reconciliation.

Recommendation

The Manager of Mountain View cemetery should establish a formal reconciliation process. This spreadsheet reconciliation should be established between the bank records and the accounting records. It should be done timely, reviewed and approved by management. The reconciliation process should be set up as soon as possible or before March 31, 2010.

Management Comment

Manager, Mountain View cemetery

Agreed. Procedural changes have been made to ensure that there is a double check and sign-off of daily and weekly summaries by cemetery clerical staff including detailed explanations of any anomalies. Additional changes will be made to the reconciliation spreadsheet to provide for monthly reconciliation to the bank records. This will be completed before February 28, 2010.

G.3 Enhance Internal Work Order Documentation

Although it is rare and has not been noted for many years, there was an incident that occurred during the past summer when an internal work order for an in-ground burial was set up as a cremation interment. Fortunately, on the day of the event the problem was quickly resolved with the client. The post event analysis found that perhaps the terminology used by the cemetery staff was misinterpreted by the client leading to the confusion. Documentation for service at the cemetery should be explicit so that there should not be any misunderstanding of the nature and type of services being offered.

Recommendation

The Manager of Mountain View Cemetery should reiterate to all staff that when dealing with clients to explicitly ask the type of services being requested. The "Application for Interment Right Licence" form should include a check box to identify the specific service to be conducted. This would reduce any discrepancies at the time of the service and mitigate possible liabilities and reputation damage attributable back to the City. The forms should be amended and formally incorporated into the business process to clearly identify the type of service being requested by March 31, 2010.

Management Comment

Manager, Mountain View cemetery

Agreed. Management will make the suggested change when the current supply of forms is exhausted and a new print run is required.

G.4 Develop Process to Assess Customer Satisfaction

Mountain View Cemetery has been operating and providing minimal service for over two decades as there were no burial plots sold during that period. The current revitalization scheme has a cautious yet aggressive program to recapture its market share. It is important that all avenues to determine the cemetery's market penetration and public acceptance be explored. One assessment indicator on the cemetery's performance is via customer feedback. Independent follow-up surveys and satisfaction (critique) forms are useful to ascertain whether Mountain View Cemetery has performed satisfactorily with respect to the service provided. Community surveys, within the scope permissible under the Cemetery, Interment and Funeral Services Act, could be undertaken to assess the success of the cemetery's advertising campaign and service delivery. This information will be crucial for cemetery management to act on improving customer service where needed and reaching out to potential clients in a competitive market.

Recommendation

The Manager of Mountain View cemetery should develop a process such as surveys and post-service critique forms to assess the level of service provided to clients. The results of these independent surveys should be shared with the Cemetery Committee and used as input for future operation and business development. This should be done by June 30, 2010.

Management Comment

Manager, Mountain View cemetery

Agreed. Management and the Cemetery Committee have previously discussed such assessment tools and they will be implemented by June 30, 2010 as recommended.

Other Observations

Inventory Process

There was no formal inventory process to account for retail items such as flower vases, urns etc. at the Cemetery until recently. Since the revitalization program and the construction of the columbaria for interment, the cemetery has acquired a number of these items for resale. The resale value for these items is approximately \$28K. Since our audit and discussion with management steps have been taken to maintain an inventory. The next step would be to find suitable location to categorize and store them for easy access and future inventory count.

Mountain View Cemetery management has been proactive and has taken steps to comply with the request to inventory the retail items once identified as a necessary internal controls process.